

**Pension Review Board
Advisory Committee on
Principles of Retirement Plan Design Meeting Minutes
Friday, October 13, 2017**

1. Meeting called to order (0:00)

The first meeting of 2017 of the Pension Review Board (PRB) Advisory Committee on Principles of Retirement Plan Design was called to order by Chair Keith Brainard on Friday, October 13, 2017, at 2:02 PM at Capitol Extension, Committee Room E.2014, 1400 N. Congress Avenue, Austin, Texas.

2. Roll call of Committee members (0:10)

Board members present:

Keith Brainard
Stephanie Leibe
Josh McGee

3. Discuss and consider developing recommendations for PRB Principles of Retirement Plan Design (0:28)

Chair Brainard gave a background and described the items included in the meeting packet. The first was a National Association of State Retirement Administrators (NASRA) resolution that Mr. Brainard stated should guide the Committee's discussion on retirement system plan design for employees of state and local government. The second was a draft of the *PRB Principles of Retirement Plan Design*, drafted by Chair Brainard. Mr. Brainard added that the draft should serve as a basis of the conversation.

The discussion began with the first element, participation. Mr. Brainard stated that as a point of reference, NASRA calls for mandatory participation. **The Committee agreed that the Principles should include a statement that participation is mandatory.**

Mr. Brainard moved to the second element, contributions, and noted that the Principles should not need to be too specific on this point.

The Committee discussed whether the Principles should state that the contributions should be shared by employees and employers. Mr. McGee suggested that this element address contribution adequacy and **the Committee reached a consensus that contributions should be made in a manner consistent with the PRB *Pension Funding Guidelines*.**

After some deliberation, for the third element, **the Committee agreed that assets should be pooled, professionally invested, and invested in a manner that minimizes cost.**

Mr. Brainard mentioned that these elements should apply to retirement plans that offer the primary retirement benefit. Mr. McGee noted that he felt the Principles should have the ability to be applied across plan type, rather than pertaining to a single type of plan.

The Committee agreed that "pooled" means a vehicle where a plan member gets a choice and the assets are pooled to get into a diversified investment vehicle.

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The Committee discussed diversification, noting that the Principles should help plans avoid a situation where too much of their assets are in one asset class. On this matter, the **Committee agreed to include that assets should be diversified and invested in a manner consistent with prudent person standards.**

(25:20) Chair Brainard summarized the first three elements and opened the meeting to public comment.

Lois Emerson from CPS Energy in San Antonio asked for clarification on the term "pooled." Mr. Brainard and Mr. McGee explained that pooled means that all contributions are put into one account.

Julie Higgins from Houston Firefighters' Relief and Retirement Fund commented that if employees are not making contributions, there is a concern that there would not be enough money to pay for benefits.

Mr. Brainard agreed and stated that employee contributions are vital to finance retirement benefits and stated that he believed that Mr. McGee stated earlier that the more important point is that contributions be adequate to fund the benefits that are being promised, rather than who is making the contributions.

He also stated that he felt that as a matter of principle, it is sound retirement policy to have employees contribute towards the cost of their benefit and that there is a psychological benefit to employees feeling as if they have ownership in their retirement because they are making a contribution to their retirement.

David Stacy from Midland Firemen's Relief and Retirement Fund stated that he agreed strongly that employee contributions are a critical component of sound plan design.

Mr. Brainard noted that requiring employee contributions gets them more involved in the health of the fund.

Mr. McGee noted that the concept of employees feeling they have ownership because they are contributing could be a compelling argument.

(36:34) The Committee moved to the fourth element, treatment of investment gains and losses, and made no recommendations for the element before moving on to the fifth element, benefit types.

The Committee decided not to address healthcare in this element.

The Committee also decided to include, in a preamble to the Principles, adequate death and disability benefits as a part of retirement planning, since death and disability benefits are generally a part of a public employee's retirement package.

(42:41) For benefit eligibility, **the Committee decided that instead of including specific details within the Principles, a preamble should be included before the Principles, with a statement that a**

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retirement plan is an important part of an employee's compensation and is important to their well-being in retirement.

Mr. McGee suggested mentioning vesting in this section, stating that long-period vesting could place an employee's career in a retirement savings deficit. **The Committee agreed to include in the Principles that vesting should be immediate or a short-period.**

(46:36) For the seventh element, benefit levels, the committee discussed target replacement rate. Mr. Brainard suggested stating that the benefits should be designed to replace a designated portion of employee salary based on selected periods of service, in consideration of the presence or absence of Social Security. Mr. McGee agreed with his statement, but suggested replacing "for selected years of service," and stating that benefits should place employees on the path to have a target replacement rate at a specified retirement age. The Committee did not agree on specific language for the element, but agreed to include language that discusses target replacement rate and benefit adequacy.

(51:10) Mr. Brainard again opened the meeting to public comment.

Eloise Raphel from Houston Firefighters' Relief and Retirement Fund commented that income replacement and whether it is adequate is relative. She added that mentioning adequacy is a good path, but that the concept itself is relative, so it would be very hard to define what is adequate for each individual.

Mr. Brainard raised the question of whether the Principles should distinguish between career workers and short-term workers. Mr. McGee commented that there is no way to distinguish between the two types of workers in the outset, and that it is better to state that employers should put people on a path rather than distinguish what is adequate for what type of worker. He noted that employers should consider the type of workers they have and help all of them save for a secure retirement.

(56:30) The Committee moved to the next element for discussion, access to retirement assets.

Mr. Brainard noted that this element should mention annuitization, which means a benefit that cannot be outlived. Mr. McGee agreed and stated that access to annuities is important and the principle should speak to low-fee annuities. **The Committee agreed that the principle should include mandatory annuitization of a portion of the benefit.**

The Committee agreed to include language that discourages or minimizing access to loans, lump-sums, or anything that resembles leakage of retirement assets pre-retirement, with the exception of very severe individual circumstances.

(1:01:22) The Committee moved to the next element, post-retirement benefit adjustments, which addresses cost-of-living adjustments.

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The Committee discussed and agreed upon including that the annuity should be protected against inflation and should be paid for in advance.

(1:05:15) The Committee moved to the final element, governance.

Mr. Brainard mentioned that the Committee should consider language that retirement plans benefit from an economy of scale, and by pooling assets and pooling liabilities and combining plan participants, just as an insurance risk pool, retirement benefits can also benefit through reduced costs and reduced volatility.

Mr. McGee suggested that plans should be managed in a way that is sustainable in the long-term and minimizes cost.

The Committee agreed to include language that mentions stakeholders, transparency, accountability, and includes a cost element.

(1:08:15) Mr. Brainard opened the meeting to public comment.

David Stacy from Midland Firemen's Relief and Retirement Fund stated that when looking at purely defined benefit plans, he felt that it is appropriate for employers to have a stated vesting period and that there should be penalties for not working for that period, such as not refunding an employee's contributions if he or she does not work the required vesting period. He mentioned that the Principles should include disability and death benefits because a large number of public plans in Texas do not participate in Social Security. Mr. Stacy also stated that he disagreed that lump-sum amounts should be made available during extreme hardship, and he stated that defined benefit plans should only be used during retirement. Additionally, he stated that cost-of-living adjustments should prevent the erosion of benefits.

Lois Emerson from CPS Energy commented on annuitization, and stated that plans should be allowed an option of providing a lump sum of their entire benefit to employees, if they wish to do so. She gave an example of terminally ill employees, or employees with no family to pass the benefit on to.

Mr. Brainard responded that it would be thinking of the retirement as a cash savings plan, which it is not.

Mr. McGee noted that the concepts of savings versus retirement is the same, and that consideration should be given to the fact that employees give a portion of their paycheck to fund the benefit, so the distinction should not be made here. He also stated that if the Principles are requiring people to save for retirement and requiring a portion to be annuitized, there should be some flexibility with the rest. Mr. Brainard agreed.

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Jennifer Jones from the Employees Retirement System of Texas mentioned that most systems offer supplemental savings and/or an IRA option, so the Principles may want to acknowledge that there are supplemental savings plans available.

The Committee agreed that the Principles should encourage sponsor-supplemental savings.

Dan Wattles from the Texas Municipal Retirement System (TMRS) commented on the variability of plans. He mentioned that TMRS has inhibitors to keep people from withdrawing money, for example, an employee cannot get access to the employer match amount until they retire.

Mr. McGee stated that the PRB wants to discourage people from taking money out of the plan, but he was not comfortable with restricting all access to money pre-retirement.

Mr. Wattles stated that he felt that a defined benefit plan is designed to provide a benefit at retirement, so it should be left for retirement. He mentioned that too short of a vesting period can encourage employees to leave employment earlier. He also suggested circulating the Principles draft for comments.

Mr. Brainard stated that once a draft is finalized, it will be distributed for public comment.

Eloise Raphel from Houston Firefighters' Relief and Retirement noted that the Committee might consider adding language about portability, giving the example of the Proportionate Retirement Program.

The Committee agreed that the Principles might consider mentioning transferability.

Lois Emerson from CPS Energy asked what the intention of the Principles are, and whether it is a scorecard.

Mr. Brainard stated that the Principles are not intended to serve as a checklist, but should be thought of as guidance.

Mr. Brainard suggested that the Committee share their notes with staff to combine and that staff share the revised draft with the Committee so that they can reach consensus on the document. Mr. McGee agreed, and asked about the timeline of the draft and public comment.

Ms. Anumeha stated that staff can work on draft language that incorporates suggestions offered by constituents, aiming for the November board meeting, or that another Committee meeting in December is an option.

Mr. Brainard stated that the Committee should reach a consensus before sending to the full board for approval before circulating for public comment.

4. Date and location of next Advisory Committee meeting – TBD

There was no discussion on this item.

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5. Invitation for audience participation

The Committee allowed for participation throughout the meeting.

6. Adjournment (1:34:18)

Chair Brainard entertained a motion to adjourn the meeting.

Motion made by Mr. McGee, seconded by Mr. Brainard.

MOTION CARRIED UNANIMOUSLY

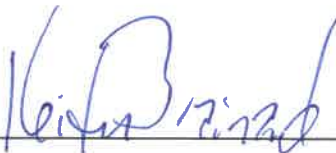
In Attendance:

Staff

Anumeha
Reece Freeman
Kenny Herbold
Michelle Kranes
Ashley Rendon
Bryan Burnham
Eusebio Arispe
Westley Allen

Guests

Dan Wattles, TMRS
Tom Harrison, TCDRS
Nancy Fisher, Austin Firefighters' Pension Fund
Eloise Raphael, Houston Firefighters' Relief & Retirement Fund
Juliet Higgins, Houston Firefighters' Relief & Retirement Fund
Eddie Solis, TEXPERS
Jen Jones, ERS
David Stacy, Midland FRRF
Kari Torres, CPS Energy
Pamela Rohana, CPS Energy
Lois Emerson, CPS Energy



Chair Keith Brainard